

**Remarks by Thomas B. Modly  
Under Secretary of the Navy  
McAlesse/Credit Suisse 9<sup>th</sup> Annual Defense Programs Conference  
March 6, 2018**

Thank you for the introduction. It is an honor to share the agenda with such a distinguished group of defense professionals and Members of Congress. It is also an honor and a privilege to have the opportunity to serve again in the United States Navy. I took my original oath of office in the Navy as a midshipman in 1979. The world was a dangerous place back then, (we all thought), but today's world is even more complex and the threats to our security even more varied across a far broader spectrum. Some of these threats are driven by rogue actors, such as al Qaeda and ISIS, who employ unconventional means that have advanced their potential to have even larger destructive and disruptive effects on our society. We see this across every area of the world in which our naval forces must engage. These transnational actors inspire each other and use the tools of modern technology and social media to build connections across borders that threaten our people and our allies and friends around the world. And some of them, are actually states, like North Korea and Iran, who have determined

that their paths to survival are through an ascendance to great power status of their own making. Both nations have chosen to do so by directly and indirectly confronting the United States in order to demonstrate our vulnerabilities, and in return, to elevate their own prestige.

More alarming, though, in recent years we have seen changes that have eclipsed the dangers these rogue actors, and rogue nations, have presented over the past decade. If you have read our new National Defense Strategy, you will see this emerging challenge clearly articulated. Its implications are alarming and, rightly so, it will drive investments in our defense capabilities going forward. We are reentering an era of Great Power Competition on a global scale and so we must be focused on responsibly developing forces that protect our people and our interests, and our friends and allies around the world.

The National Defense Strategy is a very cogent and realistic document. It is aligned with the National Security Strategy of the United States which

was published just a few weeks before the NDS, and it very plainly directs the Department of Defense to Compete, Deter, and Win alongside our allies and partners. It is a strategy that recalls President Reagan's commitment to preserve **peace through strength**, while enabling decisive victory in conflict if necessary. It is the Department's preeminent strategic guidance document and it will set the course for the Department of the Navy for years to come.

As the strategy describes, great-power competition has reemerged as the central challenge to U.S. security and prosperity, and this geostrategic fact is demanding prioritization and tough strategic choices. It is increasingly clear that China and Russia want to shape a world consistent with their authoritarian model and they will use whatever tools that are available to them, both lethal and non-lethal, legal and illegal, to influence and coerce other nations' economic, diplomatic, and security decisions.

Both China and Russia aim to shift the regional balances of power to their advantage. It is their stated intent to weaken or fracture the U.S.-led alliance and partnership network that has ensured security and prosperity for

generations around the world. If unaddressed, the erosion of the United States' military advantage vis-a-vis China and Russia could undermine our ability to deter aggression and coercion in key strategic regions. Therefore, we must correct the trajectory of the past several years so that both countries understand that the United States is not in retreat, but that we will advance our interests and influence around the world. Those interests are primarily defined by actions that will promote global peace and prosperity through what Secretary Mattis describes as a "Constellation of Partnerships" with nations who share our values and security interests.

While the strategy prioritizes the challenges from China and Russia, it does not ignore the growing and pervasive threats from North Korea and Iran, and it also continues our commitment to defeat violent extremism and the horrors being perpetrated in the name of Salafist-based ideologies. In essence, it is a realistic strategy, but also a very ambitious one that cannot be executed without a significant commitment of national resources, and

perhaps more importantly, a significant application of national resolve and urgency.

As Secretary Mattis has stated,

“In a world awash in change and increasing threats, there is no room for complacency. History makes clear that no country has a pre-ordained right to victory on the battlefield” (Mattis).”

The Secretary is certainly correct that there is no pre-ordained right to victory. Rather, it occurs when a nation is prepared **not only** for the fight that it sees coming, but also when it is prepared **for the fight that it does not**. So it follows that the NDS is structured to address the full range of adversaries we may face in this rapidly changing security environment. The future Joint Force we must build in response will have a modern, flexible, and tailored nuclear deterrent; decisive, globally-capable conventional forces; and a high level of competency in irregular warfare. This force must be lethal and resilient in contested environments, disruptive to adversaries who seek

advantages across the globe, and flexible enough to address and defeat threats across a broad conflict spectrum.

Fundamental to this future force will be the preeminence of our maritime superiority because America is, **and will always be**, a maritime nation. Command of the seas is central to our nation's security and prosperity, and our maritime forces continue to be in great demand around the globe. China and Russia are heavily investing in expanding their conventional and unconventional naval capabilities, and Iran and North Korea present challenges to our naval forces in different, but still very disruptive and dangerous ways.

Therefore, given the increasing complexity of the competitive geostrategic landscape, the National Defense Strategy's mandate for how we construct our naval forces must address a broad range of challenges:

- A return to great power competition, but not to the exclusion of other threats.

- An emphasis on lethality and readiness, but not to the exclusion of new platforms and technologies for the future fight.
- A recognition that we must advance our nation's interest and influence on the seas, but not to the exclusion of building alliances and partnerships that seek peaceful conflict resolution, with preparedness for the use of decisive force if necessary.

The United States Navy and Marine Corps must, and will, rise to the challenge ----and we will do so by building a bigger, better, more networked, more talented, and more ready force. Thanks to the support of Congress we are already on the path to this future state of U.S. maritime supremacy. The FY17 budget arrested the readiness decline we had experienced in recent years; FY18 made progress in restoring readiness; and the FY19 budget increases lethality by building both capacity and capability.

This year's budget request marks a significant down payment on the development of the future maritime force. We are committed to building a

more lethal, resilient and agile force to deter and defeat aggression by any potential adversary in all domains and across the full conflict spectrum. The Fiscal Year 2017 budget was aimed to arrest the readiness decline, while the FY18 budget addressed the most pressing needs. FY19 and forward are focused on modernization and substantial growth to build the Navy Our Nation Needs and the USMC Force of Choice to protect the homeland and preserve America's strategic influence around the world.

Our nation relies on maritime operations worldwide. Forward-deployed and forward-stationed naval forces use the global maritime commons as a medium of maneuver, insuring the routes of commerce remain free and open – to everyone, assuring access to overseas regions, defending key interests in those areas, protecting U.S. citizens abroad, and preventing adversaries from leveraging the world's oceans against the United States. We must embrace the reality that protecting our interests on the seas is critical to our survival, and so we must fund our Navy with a long-term view that recognizes that almost all of our major investments have long-term implications. Most importantly, we must recognize that short-term



fluctuations in funding for capital investments can also have long-term implications for the overall fitness of our forces.

For example, we estimate that nine successive Continuing Resolutions have cost the Navy nearly four billion dollars due to contracting inefficiencies and interruptions. To restore readiness, increase lethality, and build capacity, as outlined in the PB19 budget request, we must end inefficient “boom/bust” procurement. Busts devastate workforce experience, efficiency, and resiliency, making it difficult to rebuild capacity. When new ships are needed, rebuilding the industrial base and retrieving the requisite shipbuilding corporate knowledge and talent to do so adds significant time and cost to procurement. In this regard we are highly encouraged by, and appreciative of, the recent Bipartisan Budget Agreement reached by the Congress and we look forward to working closely with them during this annual posture process to ensure we can return to more stable and predictable funding that allows for better strategic choices.

Among the most critical of such choices is how we address the basic fact that **WE need more ships**. There is little debate over the fact that the pace of operations over the last 16 years have put an immense strain on our fleet, leading to significant challenges to our ability to effectively provide forward presence and project power. While I am confident that the Navy will always answer the call, the recent tragic events involving USS Fitzgerald and USS McCain have demonstrated that we must return to a condition in which we have enough well-maintained ships manned by well-trained, well-rested, focused, and competent crews to meet the relentless security demands placed on them by our Geographic Combatant Commands.

Our answer to the need for a larger number of ships can be found in the PB19 Ship Acquisition Plan (FY2019 -FY2023) which covers the period of the FYDP. This plan puts the Navy on a path to growing the Fleet to 326 ships by FY2023 which is a respectable increase from our current Fleet of 282. In this Plan, service life extensions (SLEs) are carefully balanced with new-construction based upon extensive cost-benefit analysis in order to maximize

naval power as quickly as possible. The FY19 President's Budget adds funding for six Ticonderoga-class cruiser service life extensions in FY20 through FY23, which extends the service life of these ships by an additional five years. It also includes funding to refuel one Los Angeles-class submarine (SSN) to extend its service life for an additional ten years. The retirements of three mine countermeasure ships are delayed to FY22 and an additional two are delayed to FY23. These measures get us on a path to a significantly larger fleet within the FYDP.

However, and more significantly, our 30 Year Shipbuilding plan (FY2019-FY2048) illustrates how the realities of building a 355-ship Navy will be a much longer term proposition. While the plan can achieve a 355-ship fleet, it is constrained by the top line funding we expect to see through the FYDP and beyond, and our best estimates of current industrial shipbuilding capacity. Industry has assured us that they can flex upwards to meet a more aggressive schedule, but based on stable assumptions for these factors, we will not achieve the 355 ship fleet until the 2050s.

An acceleration of this plan to achieve 355 ships is certainly possible but it will require a much more aggressive funding approach, and one that must recognize that shipbuilding is just the first step. In addition to building and commissioning these new ships, there will also be significant costs related to the acceleration of manning and maintaining them. These costs are not calculated in the 30 Year Shipbuilding Plan itself. Additionally, while we could accelerate, we also want to avoid boom and bust cycles for our shipbuilding industry partners. Booms, or buying too many ships in bulk (for example what we experienced in the late 1950s through the 1980s), ultimately leads to mass obsolescence when entire types/classes of ships reach the end of their service lives simultaneously. Also, as a nation, we don't have the industrial shipbuilding capacity we had in the past. Over the previous five decades, 14 defense-related new construction shipyards have closed, 3 have left the defense industry, and only a single new shipyard has opened. Today, the Navy contracts primarily with 7 private, new-construction shipyards to build our battle force in support of our National

Defense Strategy requirements. These are the shipyards that will be called upon to build the 355 ship force and we have calculated reasonable expectations for them with respect to capacity in our Plan.

The 30 Year Shipbuilding Plan attempts to address this potential capacity problem by providing the reliability and consistency needed for our industry partners to fulfill shipbuilding orders efficiently and affordably, while retaining highly skilled workers. As currently constructed, the plan shows a smooth and steady procurement schedule for each class of ship across 30 years. This method of procurement will ensure the United States retains the industrial capacity and corporate talent to surge different types/classes of ships to address uncertain security environments. It also allows for greater flexibility to integrate technological advances and avoid the problem of mass obsolescence as I described. Our ship acquisition plan demonstrates how the long-term nature of these investments present us with a very difficult paradox--- we are making commitments to building ships that will sail in a maritime security environment that we can't truly understand today. All we

can say with some certainty about it is that it will be different than the current one, and so our plan has to balance stability with flexibility, current needs with future ones, and aspirations with fiscal realities.

This is why when I am asked about the 355 Ship goal, I answer that the right number is probably 355 PLUS, because while we certainly need more sea-going platforms, we also need to increase their lethality and their ability to operate in a networked fashion with both manned and unmanned assets that contain, restrain, confuse, overwhelm, and decisively defeat our enemies. A larger force is necessary, but a larger, more **agile** force will be the key determinant of the success of our maritime strategy. That PLUS will be measured by how AGILE that 355 force is. Specifically:

- How flexible and adaptable is it?
- How well does it collaborate and interoperate with allies, and with unmanned assets, or smaller combatants that don't fit nicely in the categories we are used to using to define warships (things we haven't thought of today)?

- How fast are they---not just over and under the water, but in the information space, or in how quickly they can be reconfigured to address different threats?
- How transparent are they within the network of systems and platforms in which they operate, and how nontransparent and unpredictable are they for our adversaries?
- How innovative are the tactics they employ—and the people who man the ships and devise those tactics?

These are the critical questions we will ask ourselves as we build this new fleet -- and we will demand that industry also consider these questions as they work with us to build it.

In closing, I would like to say that building the agile maritime force we need to address the emerging challenges of this century will require critical self-assessment about how we do things as an organization. We must reverse a culture of “normalized deviation” in some parts of the Department of the Navy, where what was once unacceptable has become accepted

practice,. We will do this by demanding stronger accountability from all levels of the Department. This includes those whom we ask to command our ships and aircraft, those whom we ask to lead our Marines and special operations forces in battle, those whom we ask to deliver programs, both large and small, and those whom we ask to manage and account for the funds provided by the American people. Therefore, we will place a renewed emphasis on transforming our business mission area to incorporate 21<sup>st</sup> century management methods and uses of technology that improve visibility and accountability to inform better risk-based decision making, and emphasize agility over bureaucracy. In my role as Chief Management Officer of the department, I intend to:

- Develop an enterprise business systems strategy that finally rationalizes the antiquated systems environment we operate today
- Take lessons learned from our first audit to drive business improvement priorities—not just audit-related ones



- Implement business reforms that yield significant savings—not merely incremental ones—in order to free up capital to fund our large capital requirements
- Leverage big data strategies to address major operational issues in our supply chain and human capital management
- Drive a culture of agility, accountability, and learning for our people

“Close enough for Government Work” is a phrase that I will not tolerate in the Department of the Navy because frankly that’s not “close enough” to what we need to COMPETE and WIN in this new competitive environment we find ourselves as a nation. I look to you, as representatives of industry, to help us push the limits of our thinking in this regard. We need you.

Thank you for inviting me to speak at this forum. God Bless You and Your Families.

And may God bless the Sailors and Marines who go in harm's way on  
and under the seas, in the air, and on the land to keep us safe... and free.